

Memorandum

To: Trustees
From: Paul Broughton, Property Advisor to the Trust
Date: 30 June 2022
Subject: Community Lands Lease Restructure Proposals



Trustees of the Greytown District Trust Lands Trust (the Trust) are being asked to vote on the attached Community Lands Lease restructure proposals with respect to lands owned by the Trust. The lands are situated at 123 East Street, 55-59 East Street, 10 McMaster Street, and 175-177 Main Street, all of which are located in the town of Greytown.

Current Status

Commonly known as the Community Lands Assets, each site is subject to a perpetual ground lease, with market-based ground rental provisions applying.

The accepted methodology in assessing ground rentals is typically based on a percentage of the land value eg, 5-6% of the market value (or in some cases, the rateable value) of the land. The Community Lands are currently zoned residential, which results in a higher value than would be ascribed in the event zoning reflected the actual long-term use of the sites.

With the rapid increase in residential land prices over the last 10 years rentals assessed for these sites has seen unprecedented growth.

By way of example: 123 East Street (Greytown Rugby Club) - when the current lease was signed in July 2014 the annual rental was set at \$45,000 per annum. The most recent valuation of this site has seen the value increase to \$3.3m which translates to a rental of \$165k pa or 367% increase over the last eight years.

In each case, the rentals charged in accordance with the ground leases have, in turn, been matched (more or less) with a grant from the Landlord (the Trust). Effectively the lessees occupy the sites rent free and while this arrangement is not guaranteed, Trustees have made such grants over a considerable number of years (upwards of 140 years in the case of 123 East Street).

Summary of the Proposals

The proposals before Trustees aim to put in place arrangements that will provide certainty for the existing Lessees, while broadening local community utilisation of the majority of the sites concerned.

The proposals are consistent with the Trust's own Act and Strategic Plan, ensuring the long-term opportunity to provide a positive impact in respect to the general wellbeing of the Greytown community.

Essentially, the proposals remove the circular treatment of rental that is currently in place and remove the perpetual nature of the leases that are in place with the existing tenants. The proposal includes new perpetual leases to South Wairarapa District Council over parts of 2 sites, enabling multi-code/recreational use by the community.

The current valuations for these sites do not take the circular arrangements into account as these arrangements are non-binding, despite the fact they have been in place for some considerable period of time. In the event the proposals are put in place, the existing valuations will reflect the lack of “rental income” and reduce to a zero or near value in most cases.

In terms of the Trust’s cash flow, there is no change to the bottom line – rentals won’t be charged, and matching grants won’t be made. The money-go-round will cease.

The Proposals context in terms of the Greytown District Trust Lands Trust Act 1979, Trusts Act 2019, the Trusts Strategy and its SIPO

- **Greytown District Trust Lands Trust Act 1979**

The proposal acknowledges the Greytown District Trust Lands Trust Act, in particular it accords with one of the very foundations upon which lands are to be held – Section 13(b)(ii) & Section 13(c).

The Trust’s legal advisors have confirmed the proposals are not in breach of the Act.

- **Trust Act 2019**

The Trust’s legal advisors have confirmed the proposal is not in breach of the Trusts Act 2019.

In addition, the Trust’s auditors have confirmed that subject to the correct treatment in the accounts, the proposal will not result in any issues from an audit perspective.

Please refer to the attached Legal & Audit opinions for further details on the above.

- **The Trust’s Strategic Plan**

The proposal recognises and, where appropriate, is linked to the Trust’s published 2021-2024 Strategic Plan, in particular:

- **Our Purpose:**

Providing a return to our community – this can be financial or non-financial. The proposal is based on ensuring wider community usage of the community lands. This will provide a greater level of community return than the current arrangements.

- **Our Vision:**

The proposal provides guaranteed inter-generational and broadened community use of the community lands (assuming Trustees elect to retain all spaces for recreational use etc), supporting the growth and vibrancy of our community.

Statement of Investment Policies and Objectives (SIPO)

The proposal before Trustees is concerned with the long term occupational and usage arrangements of what are referred to as the “Community Lands”. As it currently stands, these community focussed assets derive notional income purely on the basis that the Trust funds such income by making a matching annual grant to the incumbent tenants, each of whom occupy the lands on perpetual ground leases.

Given the long-established circular nature of income from these sites, the community lands cannot be viewed, nor be treated, as being the same as the balance of the Trust’s assets which do derive genuine income and therefore a resultant investment return to the Trust.

The Trust has put in place a Strategic Plan and Statement of Investment Policy (SIPO) to ensure its commercial assets meet minimum investment return thresholds.

The Trust’s SIPO is not an appropriate framework to apply to non-commercial community land assets.

Summary

The proposals before the Trustees look to resolve the longstanding structural issues with the Community Lands leases while at the same time enabling wider community utilisation. In doing so they formalise what has been in effect for some considerable time.

While the proposed arrangements are very much about the long-term, it must be born in mind that should circumstances change or opportunities arise, all parties to these arrangements have the ability to look at resetting terms etc. should the desire to do so exist at that time. These proposals do not preclude this from occurring.

A copy of SWDC’s response to the proposals is also included in the attachments, this would form the basis of the lease negotiations between the parties.

Paul Broughton

Technical Property Advisor